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April 28, 1958
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SUBJECT: Exposition to the Libyan Prime Minister of United States Aid to Libya

The Embassy transmits as Enclosure No. 1 a memorandum of a conversation between the Ambassador and the Prime Minister of Libya concerning the economic assistance that would, or might, be made available to Libya by the United States Government in the near future.

For the Ambassador

Rodger P. Davies
Counselor of Embassy

Enclosure:

1. Memorandum of Conversation

cc: Benghazi

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MEMORANDUM OF CONVERSATION

Benghazi, April 25, 1958

PARTICIPANTS: The Prime Minister of Libya, His Excellency 'Abd al-Majid Ku'bar;

The American Ambassador, the Honorable John Wesley Jones;

The Permanent Under Secretary for Foreign Affairs, Sayyid Omar Baruni;
The Economic Officer of the American Embassy, Mr. Frederic K. Lundy;
The American Embassy's Arab Secretary, Sayyid Mohammad Salah.

SUBJECT: Exposition of United States Aid to Libya for Fiscal Year 1958

After the opening amenities and small talk, the Ambassador (in Italian) explained that while he was aware that the Prime Minister was much occupied with preparations for his trip to London, the Ambassador wished, before the Prime Minister went to London, to review with him the full extent to which the U.S. Government was prepared to assist Libya in its fiscal year 1958/59. Such a review appeared to be advisable at this time for two reasons: first, that the end of the U.S. fiscal year 1958 was rapidly approaching and the procedural details in connection with the U.S. aid must be settled very soon, and second, that the Ambassador believed the Prime Minister would find it useful during his talks in London to know definitely what would be available from the U.S. Government.

The Ambassador then, in English with the help of the Embassy's Arab Secretary, went through the list of assured and possible items of U.S. aid (list attached), pointing out that there were two categories of assured aid, i.e., funds available for development purposes and funds available for either development or budgetary support as desired by the Libyan Government; and pointing out in connection with the Development Loan Fund that final approval on Development Loan Fund applications must be given in Washington and that he, the Ambassador, could therefore not give any firm assurance that these funds would be forthcoming. After the Ambassador had finished the exposition of U.S. aid availabilities, including the military assistance item, the Prime Minister asked first what was meant by "Special Funds". The Ambassador replied that this term referred to the funds committed under the Economic Aid Agreement of September 9, 1954. The Prime Minister then asked if the $20,000,000 total included funds that had been or would be appropriated by the U.S. Congress during the Libyan fiscal year 1958/59. The Ambassador replied that the listed assured funds had already been appropriated during the United States fiscal year 1958 which ends June 30, 1958, and that he had not referred to any future appropriations.

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The Prime Minister then said that the Libyan Government had promised the people of Libya that a number of essential projects would be financed from American grant aid funds, for instance, the provision of cold storage facilities, the rehabilitation of Benghazi Harbor, and others; and that it would be very difficult for him to explain that now Libya must borrow money to accomplish these projects. The Ambassador replied that in his opinion it should be very easy to explain that long-term, low-interest loans were entirely suitable for such projects. The Prime Minister replied that the Libyan Government would soon find itself loaded with loans that it would be unable to repay; that a policy of depending upon loans for economic development would require much thought and consideration by his Government. He believed that it would be very difficult to raise the standard of living of the Libyan people on the basis of loans. The Agricultural Bank, for instance, was established to make loans to poor farmers at interest rates sufficient only to cover costs, not to make a profit. The Ambassador replied that in order better to organize the American aid program and to expand the possible ways in which it could be offered to friendly countries, the United States Government had last year provided for several categories of such aid, including grant aid for short-term, urgent development or consumption requirements, and loan aid for long-range economic development requirements. If the Libyan Government should restrict itself only to grant aid, this would reduce very considerably the extent to which the United States Government was able to assist Libya.

The Prime Minister then asked about the commodity import program and said that the Libyan Government had been considering this program and that the Ministry of National Economy, to which it had been referred, felt that Libyan merchants would be averse to such a program because it would restrict their freedom of action. It was explained that in fact the procedure under which commodity import programs were carried out would involve no difficulties whatsoever for individual merchants since the only difference as far as they were concerned would be that their payments for imported goods would be deposited in an account in the National Bank. All other details of their importation of goods would, as far as they were concerned, remain the same. The Prime Minister said that, in that case, he saw no objection to a commodity import program, but the Minister of National Economy would want to discuss the details with the appropriate U.S. officials.

The Prime Minister asked whether the $2,500,000 that had been offered for either development activities or budgetary support would be available immediately. He pointed out that it was apparent that the commodity import proceeds would become available only over a period of time. The Ambassador replied that the $2,500,000 would be available immediately.

The Prime Minister thanked the Ambassador for this review of American aid. He remarked that Mr. Gordon and Mr. Shaglouf, with other technical experts, could work out the details of the program. The Ambassador replied that he had provided the Prime Minister with the memorandum list of U.S. aid for that purpose.

The Prime Minister said he would like to refer to the notes taken by Sayyid Baruni during the interview, offering excuses for his poor memory. He scanned

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the notes and asked some questions about the military aid. He wanted to know whether further agreements would be necessary and was informed that the military aid could be handled within the framework of the general military assistance agreement which had previously been negotiated. The Prime Minister explained further that a Libyan Government Committee, of which Colonel Sachs of the American MAAG had been a member, had agreed that the British and Iraqi Military Missions would train the Libyan Army, and it thus appeared that there was no need for an American military mission. The Ambassador replied that perhaps there was some misunderstanding about the word "training", that the American military mission, already present in Libya, was there to handle delivery of American equipment and to "train" in the sense of showing the Libyan Army how to operate this equipment. The Prime Minister replied that the above kind of training was entirely acceptable, that he had meant it was not considered necessary for the American military mission to become an integral part of the Libyan Army, as the British and Iraqi missions were, but could continue to operate as part of or attached to the American Embassy. The Ambassador replied that he believed he and the Prime Minister were in agreement.

In further discussion about the military aid, the Prime Minister asked whether the United States Government would be willing to participate in making provision for military costs such as pay and allowances. The Ambassador replied that these were ordinary budgetary costs to which budgetary support funds furnished by the United States could be applied. It was further explained by the Prime Minister that the Libyan Government had a long-term plan for organization and expansion of the Libyan Army which extended to 1964. He wished to know whether the Government could get some assurance of American participation in covering the costs he had mentioned throughout that period. The Ambassador replied that he would have to refer this question to Washington.

The Prime Minister suggested that it would be better if the U.S. Congress could be persuaded to change its system of annual appropriations. The Ambassador said he appreciated the problems presented to the Libyan Government by this system, but that the executive branch of the U.S. Government faced the same problem. In regard to foreign aid, the DLF had been established as a step in the direction of giving long-term assurances of American assistance to other countries. The Prime Minister said it was difficult to persuade the Libyan Parliament and the Libyan people to link themselves firmly with the United States when it could be done for only one year at a time. The Ambassador replied that his answer to the Libyan Government and people would be that the U.S. record of assistance to Libya and to other friendly countries gave adequate assurance of continuing interest and support. The Prime Minister agreed that this was quite true, that he personally believed it, but that it was difficult to overcome with this argument the objections of those opposed to the Government.

The Ambassador thanked the Prime Minister for giving him ample opportunity (1 3/4 hours) to present the full picture of American aid that would be available in 1958. He expressed the hope that the Prime Minister would find that, with the exposition of all U.S. aid possibilities given him today, plus the total amount of British aid which he were able to negotiate next week in London, Libyan needs would be reasonably satisfied for the coming year.

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The Prime Minister expressed his appreciation for the information brought by the Ambassador and said this knowledge of the extent of American aid would be useful to him during his London talks. He said that the British and Libyan Governments as well as the American and Libyan Governments were friends and would remain friends, regardless of monetary considerations; but of course friends should help each other.

Attachment:

Memorandum

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MEMORANDUM

In brief form, the economic assistance which the United States Government can offer to the Libyan Government for its use in accordance with agreed procedures during the Libyan Government's fiscal year 1958/59 consists of the following broad categories:

$4,000,000 (£L 1,428,500) - Special Funds for development activities;

$7,000,000 (£L 2,500,000) - ICA Funds for development activities;

$2,500,000 (£L 892,800) - ICA Funds for development activities in education;

$1,000,000 (£L 357,000) - Local currency loan funds made available for development activities through the use of Indian rupees owned by the U.S. Government;

$14,500,000 (£L 5,178,300) - Total available for development.

$3,000,000 (£L 1,071,000) - Local currency proceeds from imports for either development activities or budgetary support. Up to $2,000,000 of these funds can be used to assist in the liquidation of LPDSA;

$2,500,000 (£L 892,800) - ICA Funds for either development activities or budgetary support;

$5,500,000 (£L 1,963,800) - Total available for either development or budgetary support.

$20,000,000 (£L 7,142,100) - Grand total of assured funds. This total does not include the funds that will be allocated by the ICA to provide to Libya the assistance of USOM technical specialists.

Additional possibilities:

$6,000,000 (£L 2,142,000) - Loan from the Development Loan Fund for the Tripolitania Electricity Undertaking;

$5,600,000 (£L 2,000,000) - Loan from the DLF for the Agricultural Bank.

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Further applications can be made for DLF loans for suitable development projects.

$700,000 (£L 250,000) - Approximate local value of up to 10,000 tons of U.S. wheat that may be furnished for relief purposes if the need can be established under the applicable regulations governing the distribution of U.S. Surplus Commodities.

Military Assistance

The United States Government has already offered to assist in training the Libyan Army and to discuss with the Libyan Government the equipment needs of the Army beyond those already satisfied through the U.S. Military Assistance program. The United States Government understands that the British Government may also be prepared further to assist the Libyan Army. An agreed method of procedure can be worked out between the Libyan and British Governments, in the first instance, and between the Libyan and U.S. Governments, to satisfy the reasonable requirements of a Libyan Army of suitable size. It might be pointed out that the U.S. funds mentioned above as being available for budgetary purposes can be used, if the Libyan Government so desires, to defray certain military costs not usually provided as part of U.S. Government military assistance, i.e., pay and allowances, local supplies, etc.

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